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South America and
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THE COMMONWEALTH OF MASSACHUSETTS

STATE BOARD OF LABOR

AND INDUSTRIES

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SOUTH AMERICA AND MASSACHUSETTS



REPORT OF ROGER W. BABSON

SPECIAL REPRESENTATIVE OF THE
STATE BOARD OF LABOR AND INDUSTRIES
ON BUSINESS OPPORTUNITIES
IN LATIN AMERICA

MAY, 1915



302

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Box 42

STATE BOARD OF LABOR
AND INDUSTRIES

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PROF. SELSKAR M. GUNN

DR. A. H. QUESSY

EDWIN MULREADY,

Commissioner of Labor

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To the Massachusetts State Board of Labor and Industries

GENTLEMEN: — During my trip of 18,000 miles around South America, I was continually impressed with two facts, as follows:

1. Whatever there may be in this South American talk, the advantages of developing trade with Latin-America should first accrue to the manufacturers and working people of New England, and especially Massachusetts. Although other sections of the country have at times shown more interest in developing Latin-American trade than has New England, yet they cannot intelligently hope to receive the benefits which should come to the people of Massachusetts, Connecticut and Rhode Island.

Latin-America does not want cotton from the southern states, nor wool from our northwest, nor beef from the southwest, nor wheat and corn from the great central portion of our country, nor minerals from the Rocky Mountains. All these things Latin-America has. The only things that Latin-America wants are manufactured goods, and most of these can be supplied by New England. Hence, it seems to me that instead of dragging behind, New England should take the lead in more active, practical efforts for the development of Latin-American trade.

2. Aside from the proper training of our young men in the foreign field, the most practical thing which New England can do toward developing Latin-American trade is to aid in the establishment of banks in Latin-America which shall loan money to Latin-Americans for buying our goods. Banks are not only very useful for advertising nations, but are absolutely necessary in the financing of purchases from other nations.

Of course, our Latin-American friends would like to have U. S. A. manufacturers extend long credits themselves, the same as do the English, Germans, and other foreign manufacturers. Instead of the European manufacturer being a director in two corporations, one for manufacturing goods and the other for loaning money, each manufacturer over there does his own banking, and himself finances his own customers. Before I went to South America, I was told that our manufacturers must do likewise in order to develop South American trade.

As I talked with those people throughout Latin-America, however, I found that it is not necessary for our manufacturers to follow this same European method. Instead, we can adopt the method already followed in this country; this would be fully as satisfactory to our South American friends. In this country, the manufacturer is a director

in two corporations, one manufacturing the goods which are sold on thirty days, and the other doing a banking business which finances his customers enabling them to pay him in thirty days. This is why there are many more banks per capita in the United States than in any other country in the world. In other words, there is no logical difference between the system, used by the European manufacturers in financing their customers, and the system used by our manufacturers,—that is, the results are the same. The difference lies simply in the methods.

Latin-American merchants ask merely what North American merchants have always asked and received. I am fully convinced that these Latin-American merchants are justified in their request that our manufacturers either extend longer credits or else organize banks to enable the Latin-Americans to pay cash on thirty days.

Not only must we establish banks in Latin-America, in order to secure Latin-American trade, but the sooner we start such banks the sooner the big profits accruing from such a trade will be evident. Moreover, let us remember that the English, German, and other foreign manufacturers are not furnish-

ing this credit for nothing. Both the interest on the money, and the risk of loss are figured in the price of the goods. Of course, this is not so represented to us when we make inquiries of English, German and other South American banks and commission houses, but why should our competitors give us the secrets of their trade any more than are they now giving to our banks unbiased credit reports?

Therefore, I have returned from South America with the belief that New England has a great opportunity of taking the lead in the formation of the Bank of North America to operate throughout Latin-America. Furthermore, a great opportunity awaits the manufacturers of Massachusetts in leading the manufacturers of New England in such a movement. Branch banks, such as the National City Bank has started, are satisfactory for doing a foreign exchange business, and great credit is due to this New York institution and other banks whose representatives I found in the field, such as our own National Shawmut and First National, for their progressive spirit. What is needed, however, is a Bank of North America, a new institution, organized under the laws of the United States with a head office in New York, and with institutions in leading centers of Latin-America. Such a bank should confine its work to Latin-American business.

Such a bank should have a subscribed capital of at least \$5,000,000 to start with, of which at least \$2,000,000 should be paid in. This institution should be strictly a Latin-American institution whose capital and deposits are used exclusively for aiding South American merchants in purchasing goods from North American manufacturers. Moreover, this bank should not be allied with any special bank in this country; but should be so operated as to have the business and goodwill of all our 20,000 banks and bankers.

The directors of the institution should be equally divided between prominent manufacturers of the United States and of Latin-America. The general manager should be a good American living in New York, and the nominal president of the bank, however, could be a prominent resident of Buenos Aires. In each city, where branches are established, there should be a committee of local stockholders who would pass on local loans.

As the importance of such an institution was impressed upon me by every government with which I talked (and through the courtesy of Governor Walsh, I had personal interviews with the Presidents of five of these countries), I frankly asked whether Latin-Americans would contribute to the capital stock of such an institution. Unanimously the reply was "Yes." The merchants of

Chile assured me, through our able Commercial Attaché, Mr. Havens, that we could doubtless count on \$200,000 from them. Mr. Juan C. Gallegos of Buenos Aires stated that he could probably raise even more than this amount among his friends in that city. I am willing to take the contract to secure subscriptions from Latin-America to at least one-third of the capital stock of such a bank. This would make the local committees interested to protect the institution. This would enable the institution to get business and local deposits; also to get correct information on credits in a way that branch offices of a New York, Chicago, or Boston bank cannot now possibly secure.

I even went so far as to look up available buildings for housing this Bank of North America in important Latin-American cities. There is a wonderful opportunity to purchase real estate in all these cities. Buildings can be bought in South America today on a basis which will show a handsome profit in a few years. A wonderful opportunity exists in Buenos Aires and even a greater opportunity exists in Santiago where can be purchased the land and a beautiful new building for less than \$100,000. This building is located perfectly for such a bank, and it would compare favorably with the bank buildings of other nations. To my mind, this question of

the building is very important. When I see in these cities the splendid buildings occupied by the banks of France, England, Belgium, Germany and Italy, I certainly am ashamed of our own policy.

But I am not appealing to you men to take a hand in any charitable proposition. A bank, above all other things, to be successful and useful must be profitable. Unless the stock of a bank sells at a premium and the owners thereof receive good dividends, it is of no use in fulfilling its other functions. After a railroad is built, it still serves the community, even though it does not pay the stockholders; but it cannot be so with a bank. Hence, were I not sure that such an institution would be profitable to the stockholders, I would not for a moment suggest it. With interest rates ranging in South America from 8% to 12%, and with values marked down to a rock bottom basis, I know of no investment at the present time which presents such a combination of safety and prospective profits as a properly organized Bank of North America, properly operated in Latin-America.

In addition to all these things, I am especially interested in presenting this matter at the present time, owing to the Pan American Financial Conference to be held at

Washington the last of this month. The leading merchants of Latin-America are there to meet and talk over the possibilities of developing more intimate trade relations between our country and Latin-America. One of the most important subjects that will come up for discussion will of course be the establishment of such a bank. Moreover, I believe that the final recommendation will be the establishment of a Bank of North America along such lines as these outlined to me, by my friends in South America, during my recent visit there. Now it seems to me that New England, and especially Massachusetts, has a wonderful opportunity when this subject comes up for discussion. If, after the question is presented, a committee from this body could rise and say, "We, manufacturers of Massachusetts, heartily believe in the establishment of such a Bank of North America, and will aid in its promotion" such a step would be followed by similar endorsements from other sections of the country, and before the meeting adjourned, the nucleus of such a bank would exist.

The conditions are now ripe for the crystallization of such an institution. In Washington the very Latin-Americans who are vitally interested will be assembled hoping and working that such an institution shall be formed. Hence, a great opportunity exists

for a committee from this body to be there and encourage the efforts of these men, as only a start is necessary when the other sections of the country will quickly follow. I, therefore, beseech you men to appoint such a committee of Massachusetts manufacturers. I earnestly beg you to appoint five manufacturers who are enthusiastic over South American possibilities and who are in sympathy with these suggestions.

In closing let me repeat my first two statements, viz.:—

1. Whatever there may be in this South American talk, the advantages of developing trade with Latin-America will accrue first to the manufacturers and working people of New England. Although some other sections of the country have at times shown more interest in developing Latin-American trade than has New England, yet they cannot intelligently hope to receive the benefits which should come to the people of Massachusetts, Connecticut and Rhode Island.

Latin-America does not want cotton from the southern states, nor wool from our northwest, nor beef from the southwest, nor wheat and corn from the great central portion of our country, nor minerals from the Rocky Mountains. All these things South America has. The only things that Latin-America wants are manufactured goods, and most of

these can be supplied by New England. Hence, it seems to me that instead of dragging behind, New England should take the lead in more active, practical efforts for the developing of Latin-American trade.

2. Aside from the proper training of our young men in the foreign field, the most practical thing which New England can now do toward developing Latin-American trade is to aid in the establishment of such a Bank as has been suggested. A Bank of North America, operating in Latin-America, is absolutely necessary in the financing of purchases of New England goods. Moreover, such a bank, if properly organized and operated, should be a profitable investment for all.

In closing permit me to thank the State Board of Labor and Industries for its aid and support, and especially the Chairman, Mr. Alfred W. Donovan, and Governor David I. Walsh. Certainly I know of no more fundamental work which it can do to help Massachusetts workers than to increase the demand for Massachusetts products and hence for Massachusetts labor.

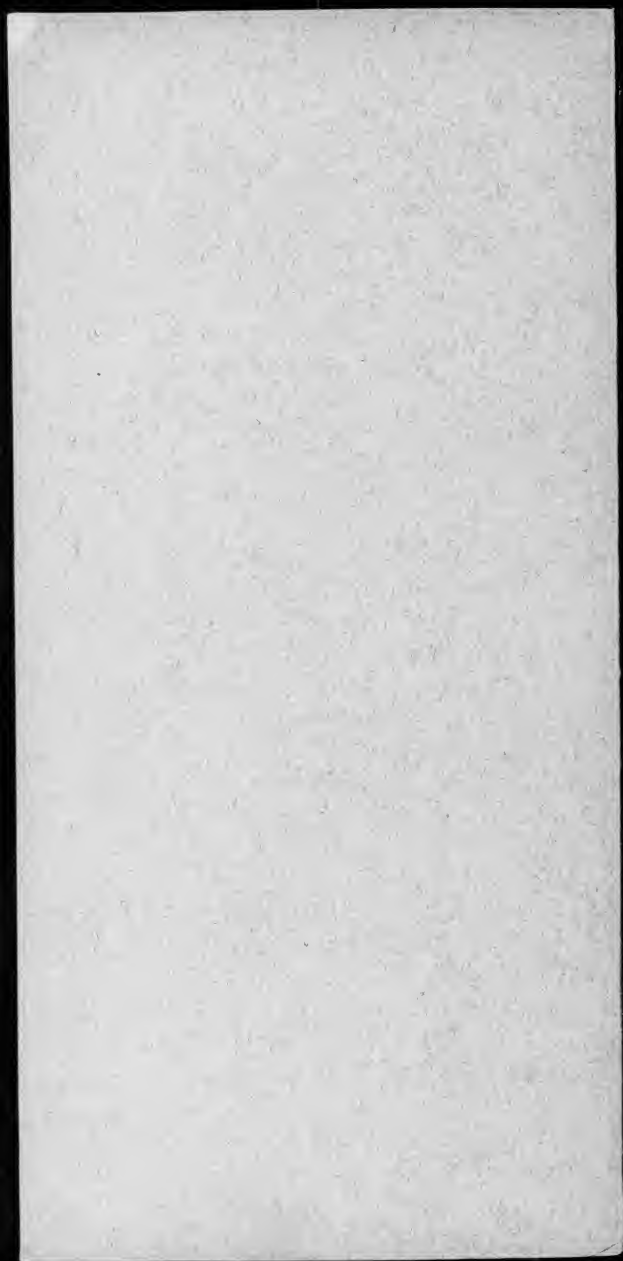
Respectfully submitted,

ROGER W. BABSON.

Wellesley Hills, Mass.

May 1, 1915.

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